

Message Text

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PAGE 01 BRUSSE 01122 01 OF 02 191736Z
ACTION EUR-12

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INFO ALL EC CAPITALS

LIMITED OFFICIAL USE SECTION 01 OF 02 BRUSSELS 01122

USEEC

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SUBJ: JANUARY 16-20, 1978 SESSION OF EUROPEAN PARLIAMENT:
DISCUSSION OF ECONOMIC AND MONETARY UNION

REFS: (A) BRUSSELS 613 (B) BRUSSELS 17971
(C) BRUSSELS 18552 (D) BRUSSELS 15365
(E) BRUSSELS 17122

1. SUMMARY: AT ITS OPENING SESSION OF THE NEW YEAR IN LUXEMBOURG, THE EUROPEAN PARLIAMENT (EP) ADDRESSED JANUARY 17 THE ISSUE OF ECONOMIC AND MONETARY UNION (EMU) AFTER HEARING INTRODUCTORY STATEMENTS BY EC COMMISSION PRESIDENT JENKINS AND EC COMMISSION VICE PRESIDENT ORTOLI. EP REACTION TO THE SPEECHES WAS LUKEWARM AND SUGGESTED EMU MIGHT LATER HAVE SOME ROUGH SLEDDING IN PARLIAMENT. MOST PARLIAMENTARIANS CALLED FOR A MORE DETAILED ANALYSIS OF EMU PROPOSALS WHICH THE COMMISSION HAS SUBMITTED TO THE EC COUNCIL. END SUMMARY.

2. IN HIS FIRST MAJOR ADDRESS BEFORE THE EUROPEAN
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PAGE 02 BRUSSE 01122 01 OF 02 191736Z

PARLIAMENT THIS YEAR, EC COMMISSION PRESIDENT JENKINS USED THE OPPORTUNITY TO TRY TO ELICIT EP SUPPORT FOR THE COMMISSION'S PROPOSALS ON EMU. AT THE OUTSET, HE ARGUED THAT EUROPEAN MONETARY UNION IS A FUNDAMENTAL ISSUE FOR THE FUTURE OF THE COMMUNITY AND IS CLOSELY LINKED WITH EP DIRECT ELECTIONS AND ENLARGEMENT. JENKINS SUGGESTED THAT STRENGTHENING COMMUNITY DEMOCRACY BY MEANS OF A

POPULARLY ELECTED EP WILL GIVE ADDED IMPETUS TO THE ESTABLISHMENT OF MONETARY UNION. MOREOVER, HE CONTINUED, THE FRAMEWORK CREATED BY MONETARY UNION WOULD PRECLUDE ANY DILUTION AND WEAKENING OF THE COMMUNITY THROUGH ENLARGEMENT.

3. JENKINS SAID THAT THE STEPS PROPOSED BY THE COMMISSION FOR ACHIEVING MONETARY UNION HAD RECEIVED "FAIR WIND" FROM THE EUROPEAN COUNCIL (REFS B AND C) AND NOTED THAT THE COMMUNITY'S MONETARY COMMITTEE, ECONOMIC POLICY COMMITTEE, AND CENTRAL BANKERS' GROUP ARE NOW RE-EXAMINING THE COMMISSION'S PROPOSALS. JENKINS THEN RESTATED ONCE AGAIN THE SEVEN ARGUMENTS IN FAVOR OF EMU MADE IN HIS FLORENCE ADDRESS (REF D), BUT EMPHASIZING THREE POINTS AS ESPECIALLY IMPORTANT FOR EP DEBATE:

4. FIRST, BY CREATING A NEW AND STRONG INTERNATIONAL CURRENCY, EMU COULD HELP BRING INTERNATIONAL MONETARY ORDER OUT OF CURRENT DISORDER AND BRING TO EUROPE ALL THE ADVANTAGES OF A MAJOR INTERNATIONAL CURRENCY JUST AS THE U.S. DERIVES ADVANTAGES FROM THAT POSITION. WITH EMU EUROPE WOULD BE FREED FROM EXCESSIVE DEPENDENCE ON THE DOLLAR, STILL THE ONLY EFFECTIVE INTERNATIONAL CURRENCY, "ALTHOUGH AN INCREASINGLY UNSATISFACTORY ONE."

5. SECOND, EMU WOULD HELP BREAK THE IMPASSE NOW INHIBITING LIMITED OFFICIAL USE

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PAGE 03 BRUSSE 01122 01 OF 02 191736Z

EUROPEAN POLICY MAKERS FROM DEALING WITH INADEQUATE GROWTH AND UNEMPLOYMENT. COUNTRIES WITH WEAK CURRENCIES, HE ASSERTED, CANNOT TAKE EXPANSIONARY ACTION FOR FEAR OF AN EXCHANGE-RATE CRISIS AND ITS INFLATIONARY EFFECTS, WHILE STRONG-CURRENCY COUNTRIES CAN DO LITTLE OWING TO THEIR DEPENDENCE ON EXPORTS AND FEAR OF INFLATION.

6. FINALLY, JENKINS MENTIONED SOME INSTITUTIONAL IMPLICATIONS OF EMU FOR THE COMMUNITY. THE COMMUNITY BUDGET WOULD HAVE TO BE MUCH LARGER TO HANDLE THE REDISTRIBUTIVE FUNCTION WHICH EMU WOULD REQUIRE, BUT WOULD REMAIN SMALL BY MEMBER STATE STANDARDS. EMU WOULD NOT INVOLVE THE CREATION OF A LARGE AND CUMBERSOME BUREAUCRACY IN BRUSSELS, SINCE MOST FISCAL FUNCTIONS WOULD REMAIN DECENTRALIZED. ALTHOUGH EMU WOULD INVOLVE AN IMPORTANT TRANSFER OF MONETARY POWER TO THE COMMUNITY, SUCH POWERS AS NOW EXERCISED BY MEMBER STATES ARE MORE ILLUSIONARY THAN REAL.

7. IN HIS STATEMENT TO THE PARLIAMENT, VICE PRESIDENT ORTOLI ARGUED STRONGLY THAT THE COMMUNITY'S CURRENT ECONOMIC ILLS ARE NOT INCURABLE, ALTHOUGH LONG AND HARD

REMEDIAL EFFORTS MIGHT BE REQUIRED. THE COMMISSION RECOGNIZES THAT EMU IS NOT AN IMMEDIATE POSSIBILITY BECAUSE OF ECONOMIC DIVERGENCES. THE COMMISSION'S PROPOSED FIVE-YEAR ROLLING PROGRAM (REF E) IS DESIGNED BOTH TO DEAL WITH CURRENT ECONOMIC ILLS AND PREPARE THE WAY FOR EMU. ORTOLI NOTED THE MAJOR FEATURES OF THIS PROGRAM: IMPROVED MONETARY COORDINATION; MORE EXCHANGE RATE STABILITY, AND CONVERGENCE OF MEMBER STATE ECONOMIC POLICIES; THE ELIMINATION OF REMAINING BARRIERS TO A UNIFIED COMMUNITY MARKET; AND COMMUNITY FINANCIAL MEASURES TO HELP DEAL WITH STRUCTURAL PROBLEMS.

8. ORTOLI CONCLUDED HIS REMARKS BY SAYING THAT THE COMMISSION'S PROPOSALS CAN SUCCEED ONLY IF THE POLITICAL LIMITED OFFICIAL USE

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PAGE 04 BRUSSE 01122 01 OF 02 191736Z

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PAGE 01 BRUSSE 01122 02 OF 02 191741Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 BRUSSELS 01122

WILL IS THERE TO IMPLEMENT THEM. HE APPEALED FOR EP SUPPORT.

9. REACTION AMONG EP MEMBERS TO THE JENKINS AND ORTOLI SPEECHES WAS MIXED. WHILE IN GENERAL MOST PARLIAMENTARIANS WELCOMED THE STATEMENTS, THERE WAS LITTLE ACTIVE SUPPORT FOR EMU. INSTEAD OF FOCUSING ON THE ISSUE, MANY MP'S GRUMBLED ABOUT NOT YET HAVING THE COMMISSION'S PROPOSALS

TO THE EUROPEAN COUNCIL. OTHERS COMMENTED ON NOT HAVING HAD ENOUGH TIME TO EXAMINE THE SPEECHES BEFORE GIVING CONSIDERED REACTIONS. SPOKESMEN FOR THE VARIOUS EP POLITICAL GROUPS APPEARED NOT TO KNOW WHAT THE VIEWS OF THEIR GROUPS WERE ON THE SUBJECT. HOWEVER, THERE WAS UNANIMOUS ACCORD THAT EMU SHOULD BE FURTHER DEBATED IN PARLIAMENT AFTER IT HAD BEEN CAREFULLY STUDIED IN COMMITTEE.

10. COMMENT: BOTH JENKINS AND ORTOLI COVERED FAMILIAR GROUND, WITH JENKINS AS USUAL EMPHASIZING HOW EMU COULD HELP TO CURE CURRENT ECONOMIC ILLS, AND ORTOLI FOCUSING ON THE LESS RADICAL STEPS HE FEELS NECESSARY TO DEAL WITH THESE ILLS BEFORE EMU CAN BE ACCOMPLISHED. NEITHER PROVIDED MUCH NEW INSIGHT INTO HOW COMMISSION THINKING IS LIMITED OFFICIAL USE

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PAGE 02 BRUSSE 01122 02 OF 02 191741Z

PROGRESSING TOWARDS CONCRETE PROPOSALS FOR THE FIRST YEAR OF THE PROPOSED FIVE-YEAR PLAN, NOR ON THE POSSIBLE FORM OF INSTITUTIONAL ARRANGEMENTS FOR MONETARY UNION. THIS IS CONSISTENT WITH OUR IMPRESSION FROM WORKING LEVEL COMMISSION CONTACTS THAT THIS WORK HAS NOT YET PROGRESSED VERY RAPIDLY.

11. AS NOTED, THE PARLIAMENT WILL DEBATE EMU AGAIN LATER, AFTER IT HAS HAD AN OPPORTUNITY TO STUDY THE MATTER FURTHER. WHILE RECOGNIZING THAT MP'S HESITANT INITIAL COMMENTS ON JANUARY 17 MAY HAVE BEEN LARGELY A REFLECTION OF UNFAMILIARITY WITH THE DETAILS OF THIS COMPLEX ISSUE (A MEMBER OF JENKINS' STAFF TOLD MISSION OFFICER HE WAS CHAGRINED TO DISCOVER HOW LITTLE MP'S PRESENTLY UNDERSTAND EMU), AS WELL AS OF THE FACT THAT THE COMMISSION HAS YET TO MAKE DETAILED PROPOSALS TO THE COUNCIL, THE MP'S STATEMENTS NEVERTHELESS SUGGEST THAT THE COMMISSION COULD HAVE DIFFICULTY ELICITING THE BROAD PARLIAMENTARY SUPPORT THAT JENKINS AND THE COMMISSION ARE HOPING FOR. DURING THE JANUARY 17 DEBATE, THERE APPEARED TO BE WIDE DIVISIONS WITHIN THE POLITICAL GROUPS ON THE NECESSITY FOR AND PRACTICALITY OF EMU. THE COMMISSION, AND PARTICULARLY PRESIDENT JENKINS, WILL DOUBTLESS CONTINUE THEIR MISSIONARY WORK WITH PARLIAMENT BEFORE THE LATTER AGAIN DEBATES EMU, SINCE JENKINS NOT ONLY WANTS SUPPORT OF THE PRESENT PARLIAMENT, BUT HOPES TO HAVE EMU FIGURE AS AN ISSUE IN THE CAMPAIGN FOR THE FIRST DIRECTLY-ELECTED EUROPEAN PARLIAMENT. HINTON

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